

**UNREGULATED UTILITY
POWER COST EQUALIZATION MEMORANDUM**

File No.: PC89-0423

Date: April 20, 2023
Filing Due Date: April 30, 2023
Review Deadline: June 4, 2023¹
Date Filed: March 30, 2023

Name of Utility: Inside Passage Electric Cooperative, Inc. Cert. No. 240

☒ Annual Update
☐ Fuel Cost Update
☐ Rate Change
☐ Other _____

☐ COPA Review
☐ Non-Fuel Cost Change
☐ kWh Sales Change

STAFF RECOMMENDATIONS: Approval of updated Permanent PCE amount (see attached memo)

PCE AMOUNT SUMMARY	Previously Approved	Staff Recommended
PCE AMOUNT (In Cents/kWh)	<u>Date Approved:</u> March 17, 2023	
All	34.68¢	32.56¢

Signed: Brenda Cox Brenda Cox Utility Financial Analyst

Commission decision re. this recommendation:

	Date (if different from 4/20/23)	I Concur	I Do Not Concur	I Will Write A Dissenting Statement *
Kurber	_____	<u>Kurber</u>	_____	_____
Doyle	_____	<u>BD</u>	_____	_____
Pickett	_____	<u>RMP</u>	_____	_____
Sullivan	_____	<u>RMP</u> For DS	_____	_____
Wilson	<u>4/21/23</u>	<u>JWW</u>	_____	_____

¹ Typically, there is no deadline for review of Power Cost Equalization (PCE) annual reports. However, a utility may request the review of an annual report (3 AAC 52.640(c)(2)) and the request triggers a 45-day review period (3 AAC 52.650(a)).

Memorandum

TO: Keith Kurber II, Chairman
Robert A. Doyle
Robert M. Pickett
Daniel A. Sullivan
Janis W. Wilson

DATE: April 20, 2023

FROM: Brenda Cox
Utility Financial Analyst

RE: Inside Passage Electric Cooperative, Inc.
PC89-0423

Recommendations

1. Updated Power Cost Equalization amounts should be effective for billings rendered on or after April 21, 2023.
2. Approval should be: ☒ Permanent ☐ Interim
3. Standard reminder language for notice specifications, efficiency, and rate changes should be included in the By Direction Letter to the utility.

Filing

On March 30, 2023, Inside Passage Electric Cooperative, Inc. (IPEC) filed its Power Cost Equalization (PCE) annual report (annual report) for the test year ending December 31, 2022. IPEC filed a supplement on April 5, 2023.² Staff's contact for this filing was Mr. Paul Jones, Attorney for IPEC.³

IPEC continued to file some of the same Schedules it filed when it was regulated and filed its Simplified Rate Filing (SRF).⁴

- Schedule 1 – Calculation of Proposed Rates
- Schedule 2 – PCE Calculation Based on Updated Rates and Non-Fuel Costs
- Schedule 3 – RCA Form 201
- Schedule 4 – Statement of Operations
- Schedule 5 – Calculation of PCE Non-Fuel Costs
- Schedule 5.1 – Waste Heat and Pole Attachment Revenue
- Schedule 6 – PCE Expense Adjustments
- Schedule 6.1 – Schedule of Long-Term Debt & Interest Adjustment

² See 2022 PCE Supplement to Annual Report.

³ Paul Jones is with Kemppe, Huffman and Ellis.

⁴ See U-18-013(4), *Order Informing Utility of Continuing Filing Obligations, Re-designating Commission and Closing Docket*, dated September 18, 2018.

- Schedule 6.2 – Administrative and General Expense Adjustment
- Schedule 6.3 – Wage and Benefits Annualization Adjustment
- Schedule 6.3.1 – Employee Insurance Detail

IPEC also filed Exhibit 2 its Rural Utilities Service (RUS) forms for the period ending December 2022, Exhibit 3 its Financial Statements and Independent Auditors Report for December 31, 2021 and 2022, Exhibit 4 its Depreciation Schedule, Exhibit 5 its Electric Utility PCE Data Form, and Exhibit 6 its General Ledger.

Summary

After Staff's proposed adjustments, IPEC's total costs per kiloWatt-hour are 53.85¢/kWh. IPEC's reported fuel efficiency is 14.96 kWh/gallon and reported line loss is 7.72%. Staff's detailed analysis of this filing follows:

Analysis

Staff used the following in its analysis: IPEC's Exhibit 1, which included the Schedules listed above, Exhibit 2, Exhibit 4, Exhibit 5, and Exhibit 6. Total reported non-fuel costs were \$6,525,447.⁵

Columns 1 and 2 of Schedule 3 shows the two most recent twelve month-periods (the test years ended December 31, 2021, and 2022).⁶ IPEC also filed the RUS Form 7, the schedule necessary to reconcile the twelve-month reporting period shown on Schedule 3.⁷ Column 3 shows the variance between the two twelve-month periods; Column 4 shows the percentage change; Column 5 shows IPEC's requested normalizing adjustments; and Column 5 shows IPEC's normalized operating expenses.

Pro Forma Adjustments

IPEC's proposed normalizing adjustments are shown at Schedule 3, Column 5. Summary and narrative explanations are found at Schedules 6 through 6.3. IPEC proposes seven test period adjustments which are summarized as follows:⁸

⁵ See Schedule 3, sum of lines 11 through 18, Adjusted Current 12-Months.

⁶ Schedule 3 is found in Exhibit 1.

⁷ See Exhibit 2, RUS Form 7.

⁸ AS 42.45.110(a) specifies the costs used to calculate the amount of PCE for all electric utilities eligible under AS 42.45.100- 42.45.150 include all allowable costs, except return on equity, used by the Regulatory Commission of Alaska to determine the revenue requirement for electric utilities subject to rate regulation under AS 42.005.

Power Production Expense (Line 2): Increase of \$35,698 to normalize a 3.0% across-the-board wage increase effective January 2023 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.3).

Distribution-Operations Expense (Line 5): Increase of \$7,925 to normalize a 3.0% across-the-board wage increase effective January 2023 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.3).

Distribution-Maintenance Expense (Line 6): Increase of \$2,139 to normalize a 3.0% across-the-board wage increase effective January 2023 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.3).

Consumer Accounts Expense (Line 7): Increase of \$7,792 to normalize a 3.0% across-the-board wage increase effective January 2023 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.3).

Customer Service Expense (Line 8): Increase of \$1,267 to normalize a 3.0% across-the-board wage increase effective January 2023 and related Medicare taxes, Social Security taxes, retirement contribution, and insurance expense (see Schedule 6.3).

Admin. & General Expense (Line 10): Decrease of \$18,497, which consists of the following: removal of lobbying expenses (\$30,065); removal of donations, gifts, and community involvement expenses (\$5,098); removal of Alaska Air miles program expense (\$16,734); removal of Employee appreciation costs (\$170); and removal of board and management expenses (\$1,051). It also includes an increase of \$34,621 to normalize a 3.0% across-the-board wage increase effective January 2023 and related Medicare taxes, Social Security taxes, retirement contribution, and health insurance expense (see Schedule 6.2, and Schedule 6.3).

Interest Long Term Debt (Line 15): decrease of \$5,981, to adjust for the long-term

debt and interest expense based on the test year ending December 31, 2022 (Schedule 6.1).

Staff Recommended Adjustments

After reviewing IPEC's pro forma adjustments, found at Schedule 6.2, Staff noted the adjustment to Admin & General Expense, included a \$2,703 decrease related to donations. This left a balance of \$2,703 under Other deductions on Schedule 3.⁹ Other deductions is the account donations are reported in. Staff recommends increasing Admin & General Accounts by \$2,703 and decreasing Other deductions by \$2,703. This adjustment has no effect on the total of the nonfuel costs.

Additionally, Staff noted on Schedule 6.2, account #912.000 - Alaska Air Miles Program in the amount of \$16,734 and on Exhibit 6, page 3 of 7, the General Ledger, Account 912.0 Selling Expense – AK – Air Miles was in the amount of \$17,089. Staff asked Mr. Jones to advise which amount should be used. He advised IPEC stated the correct amount was \$17,089. Staff recommends Admin & General should be decreased by \$355 (\$16,734 - \$17,089).

Therefore, Staff recommends **Adjustment 1 (Appendix 2)** to increase Admin & General Expenses by \$2,348 (\$2,703 - \$355) and **Adjustment 2 (Appendix 2)** to decrease Other Expenses by \$2,703.

PCE Calculation

IPEC filed Schedule 5, which shows the adjustments IPEC made to the non-fuel costs to determine non-fuel costs eligible in the calculation of the PCE amount. IPEC reduced the Total Adjusted Cost of Electric Service of \$6,525,448 by the Fuel Expense in the amount of \$2,201,724 and Cost of Purchased Power in the amount of \$215,882.¹⁰ IPEC also reduced for costs equal to Waste Heat Revenue in the amount of \$76,353, and costs equal to Pole Attachment Revenue in the amount of \$12,936. After these adjustments total non-fuel costs used in the PCE calculation are \$4,018,554.¹¹

⁹ See Schedule 3, line 18.

¹⁰ Staff noted these costs were included in amounts reported on Schedule 3 and are recovered in IPECs COPA.

¹¹ Staff notes these are the same adjustments IPEC used in its SRF filings in the past (TA212-240) and its last PCE annual update filing (PC89-0422E).

Rates

IPEC filed Schedule 1 showing its rates, Staff notes IPEC's rates are not changing and are as follows:

Rate Class	Amount
Residential - Energy	\$0.4640
Small Commercial	\$0.4980
Large Power - Energy	\$0.4079
Large Power - Demand	\$15.65
Large Power Interruptible	
Energy-First 60,000 kWh	\$0.2060
Next 240,000 kWh	\$0.1743
Over 300,000 kWh	\$0.1635
Standby	\$49.94

Fuel Costs

IPEC filed its most recent PCE fuel report on February 24, 2023, for the 2nd quarter of 2023. IPEC uses the COPA methodology that it used when it was regulated. A weighted average price of \$3.9401/gallon and a COPA of \$0.1526/kWh were calculated in PC89-0422G,¹² which is included in **Appendix 2**.

¹² Approved in Letter Order L2300076, dated March 17, 2023.

Inside Passage Electric Cooperative, Inc.

POWER COST EQUALIZATION CALCULATION
FOR TEST PERIOD ENDING December 31, 2022
Annual Update

	PC89-0422G	PC89-0423
	Prior Commission Approval	Utility Request Staff Recommended
A. Total kWh Generated	9,858,459	10,847,402
B. Total kWh Sold (Appendix 2)	10,113,012	10,411,892
C. Total Non-Fuel Costs (Appendix 2)	4,129,042	4,018,197
D. Non-Fuel Cost/kWh (C/B)	\$0.4083	\$0.3860
E. Total Fuel and Purchased Power Costs (Appendix 2)	0.1526	0.1526
F. Eligible Costs/kWh (D+E)	\$0.5609	\$0.5385
G. Eligible Cost/kWh (F) Less 19.58 cents/kWh	\$0.3651	\$0.3427
H. Lesser of (H) or 80.42 cents/kWh	\$0.3651	\$0.3427
I. Average Class Rates (Appendix 3)		
Residential	\$0.4441	\$0.4355
Small Community Facilities - All kWh	\$0.4867	\$0.4775
Large Community Facilities - All kWh	\$0.4456	\$0.4380
J. Lesser of: (H) x 95% or (I)		
Residential	\$0.3468	\$0.3256
Small Community Facilities - All kWh	\$0.3468	\$0.3256
Large Community Facilities - All kWh	\$0.3468	\$0.3256
K. Funding Level in Effect	100%	100%
Residential	\$0.3468	\$0.3256
Small Community Facilities - All kWh	\$0.3468	\$0.3256
Large Community Facilities - All kWh	\$0.3468	\$0.3256

PC89-0423
Appendix 1

Inside Passage Electric Cooperative, Inc.

SCHEDULE OF ELIGIBLE POWER COSTS, SALES, AND EFFICIENCY

FOR TEST PERIOD ENDING Decmeber 31, 2022

Annual Update

		PC89-0422G		PC89-0423	
		Prior Commission Approval	Per Utility	Staff Adjustments	Staff Recommended
Non-Fuel Costs:					
A.	Operating Expenses (Acct 500-598)	3,915,831	4,373,169	Adj. #1 0	4,373,169
B.	General & Administrative (Acct. 901-935)	1,316,551	1,330,931	2,348	1,333,279
C.	Depreciation	567,415	540,931	0	540,931
D.	Interest Expense	279,530	272,468	0	272,468
E.	Other Expense: Tax/Donations	5,331	7,948	Adj. #2 (2,703)	5,245
F.	Other (Describe)				
	Fuel Expense	(1,624,220)	(2,201,724)	0	(2,201,724)
	Cost of Purchased Power	(262,598)	(215,882)	0	(215,882)
	Waste Heat Revenue	(55,862)	(76,353)	0	(76,353)
	Pole Attachment Revenue	(12,936)	(12,936)	0	(12,936)
G.	Total Non-Fuel Costs	\$4,129,042	\$4,018,552	(\$355)	\$4,018,197
H.	Total kWh Sold in Test Year January 2022 through December 2022	10,113,012	10,411,892		10,411,892
I.	Non-Fuel Cost/kWh (G/H)	\$0.4083	\$0.4083		\$0.3859
COPA Fuel Costs:					
J.	Gallons Consumed (estimated) April - June. 2023)	\$108,349	108,349		108,349
K.	Price of Fuel (per gal) (April - June.2023)	\$3.9401	\$3.9401		\$3.9401
L.	Purchased Power (April - June 2023)	\$59,537	\$59,537		\$59,537
M.	Balancing Account estimated to 2-28-23	(\$101,244)	(\$101,244)		(\$101,244)
N.	Total Cost of Fuel (J*K)+L+M	385,198	385,198		385,198
O.	Estimated kWh Sales in April - June 2023	2,524,605	2,524,605		2,524,605
P.	Fuel Costs/kWh - COPA (N/O)	\$0.1526	\$0.1526		\$0.1526
Q.	kWh Sales	10,113,012	10,411,892		10,411,892
R.	kWh Generated with Diesel	7,128,320	7,562,095		7,562,095
	kWh Generated with Hydro	2,730,139	3,285,307		3,285,307
	Total kWh Generated	9,858,459	10,847,402		10,847,402
S.	Purchased Power	1,488,480	831,360		831,360
T.	Fuel Consumption	488,359	505,424		505,424
U.	kWh Station Service	357,905	365,659		365,659
		<u>Standard</u>			
V.	Efficiency ≥ 12.5	14.60	14.96		14.96
(kWhs generated per gallons consumed)					
W.	Line Loss ≤ 12%	7.72%	7.72%		7.72%
(kWh generated or purchased -(kWh sales + Station Service))/kWh generated or purchased					
					PC89-0423

PC89-0423

Appendix 2

Inside Passage Electric Cooperative, Inc.

CALCULATION OF AVERAGE CLASS RATE PER kWh

Surcharge: 0.1526

Rate Schedule: **Residential**

Customer Charge (CC): 11

(1) Block (by kWh)	(2) Rate (\$/kWh)	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)	(5) Total \$ (1x4)+CC	(6) Avg. (\$/kWh) (5)/(1)	(7) Avg. Rate (\$/kWh) - \$ 0.1958
0 to 750	0.4640	0.1526	0.6166	473.4500	0.6313	0.4355
to						
to						
to						
Max 750			Total			

Rate Schedule:

(1) Block (by kWh)	(2) Rate (\$/kWh)	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)	(5) Total \$ (1x4)	(6) Avg. (\$/kWh) (5)/(1)	(7) Avg. Rate (\$/kWh) - \$ 0.1958
0 to 500						
to						
to						
to						
Max 750			Total			

Rate Schedule:

(1) Block (by kWh)	(2) Rate (\$/kWh)	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)	(5) Total \$ (1x4)	(6) Avg. (\$/kWh) (5)/(1)	(7) Avg. Rate (\$/kWh) - \$ 0.1958
0 to 500						
to						
to						
to						
Max 750			Total			

Inside Passage Electric Cooperative, Inc.

CALCULATION OF COMMUNITY FACILITY AVERAGE RATE PER kWh

Rate Schedule: **Small Comm. Fac.** Customer Charge (CC): 17

(1) Block	(2) Rate/ kWh	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)+(CC/750)	(6) Average Rate(\$/kWh)- \$ 0.1958
0 to ∞	0.4980	0.1526	0.6733	0.4775

Rate Schedule: **Large Comm. Fac.** Customer Charge: 55

(1) Block	(2) Rate/ kWh	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)+(CC/750)	(6) Average Rate(\$/kWh)- \$ 0.1958
0 to ∞	0.4079	0.1526	0.6338	0.4380

Rate Schedule:

(1) Block	(2) Rate/ kWh	(3) Surcharge (\$/kWh)	(4) Total (\$/kWh) (2+3)	(6) Average Rate(\$/kWh)- \$ 0.1958
0 to				
to				
to				

PCE Annual Report

Utility Name:

INSIDE PASSAGE ELECTRIC COOPERATIVE, INC.

Period Ending:

12/31/22

LINE	ACCOUNT NUMBER(S)	ACCOUNT TITLE	ACTUAL CURRENT 12-MONTH	Normalizing Adjustments	Per Utility	Staff Adjustments	Staff Recommended
			12/31/22 (2)	(5)	(2+5)		
2	500 - 554	Power Production	3,813,012	35,698	3,848,710		3,848,710
3	555 - 557	Purchased Power	215,882		215,882		215,882
4	560 - 573	Transmission	0		0		0
5	580 - 589	Distrib-Operations	200,815	7,925	208,740		208,740
6	590 - 598	-Maintenance	97,698	2,139	99,837		99,837
7	901 - 905	Consumer Accts.	197,860	7,792	205,652		205,652
8	907 - 910	Customer Service	40,355	1,267	41,622		41,622
9	911 - 916	Sales	31,681		31,681	Adj. #1	31,681
10	920 - 935	Admin & General	1,070,473	(18,497)	1,051,976	2,348	1,054,324
11	Total O&M	(2 THROUGH 10)	5,667,776	36,324	5,704,100	2,348	5,706,448
12	403 - 407	Depreciation & Amortization	540,931		540,931		540,931
13	408.1	Property Tax	5,206		5,206		5,206
14	408.2 - 408.4	Other Tax	39		39		39
15	427	Interest L-T Debt	278,449	(5,981)	272,468		272,468
16	427.3	IDC	0		0		0
17	430	Other Interest	0		0	Adj. #2	0
18	426	Other Deductions-donations	2,703	0	2,703	(2,703)	0
19			6,495,104	30,343	6,525,447		6,525,092
20	Less Fuel Expense (Schedule 5)				(2,201,724)		(2,201,724)
21	Less Cost of Purchased Power (Schedule 5)				(215,882)		(215,882)
22	Less Costs Equal to Waste Heat Revenue (Schedule 5)				(76,353)		(76,353)
23	Less Costs Equal to Pole Attachment Revenue (Schedule 5)				(12,936)		(12,936)
24	Total Non-Fuel Costs				4,018,552	(355)	4,018,197

Signature: Keith Kurber II
 Keith Kurber II (Apr 20, 2023 12:29 AKDT)

Email: keith.kurber@alaska.gov

Signature: Bob Pickett
 Bob Pickett (Apr 21, 2023 05:35 AKDT)

Email: bob.pickett@alaska.gov

Signature: Bob Doyle
 Bob Doyle (Apr 20, 2023 12:30 AKDT)

Email: bob.doyle@alaska.gov

Signature: Janis W. Wilson
 Janis W. Wilson (Apr 21, 2023 07:48 AKDT)

Email: janis.wilson@alaska.gov